

Leighton Asia Limited

Business valuation

11 August 2000

Copy no.

德勤企業財務顧問有限公司

21/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心21樓

Tel : (852) 2852 1600
Fax : (852) 2850 6791
mail@deloitte.com.hk
www.deloitte.com.hk

電話 : (852) 2852 1600
傳真 : (852) 2850 6791
mail@deloitte.com.hk
www.deloitte.com.hk

Deloitte & Touche Corporate Finance Ltd

STRICTLY PRIVATE AND CONFIDENTIAL

11 August 2000

The Directors
Leighton Holdings Limited
Leighton House
472 Pacific Highway
St. Leonards NSW 2065
Australia

Attention: Mr. Travis Young

Dear Sirs:

Valuation of Leighton Asia Limited

In accordance with the scope and terms set out in our engagement letter dated 3 July 2000, we have carried out a valuation on a 20% interest in Leighton Asia Limited ("Leighton Asia"). Our opinion should not be read in isolation but should be read in conjunction with the rest of the report and the appendices thereto.

Definition of Value

For the purpose of our opinion, market value is defined as "the price at which the shares might change hands between a willing buyer and a willing seller, when the former is not under any compulsion to buy, and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts".

Open market value, as defined above, is a concept of value which may or may not equal the "purchase/sale price" that could be obtained if the shares were sold in an actual transaction in the open market. We did not attempt to identify buyers with a particular special interest.

Such "special purchasers" may be willing to pay higher prices because of, for example, reduced or eliminated competition, guaranteed source of material supply or sales, cost savings arising on business combinations following acquisitions or other synergies which could be enjoyed by the purchaser.

The valuation of a private company is normally based on certain valuation benchmarks (e.g. price earnings ratio) of listed companies. As there is no ready market for the shares of private companies, a discount for the lack of marketability is normally considered when these benchmarks are used in the valuation to account for this limitation.

Whilst there is research available on the range of discounts for lack of marketability, in practice, it is based on negotiation between buyers and sellers. As the last valuation done on the 20% interest in Leighton Asia in 1993 did not specifically incorporate such a discount to the valuation of the Group, we have been instructed by Leighton Holdings Limited not to include a discount for lack of marketability in our valuation for consistency purpose.

Management have also advised us that there were cash and bank balances of approximately HK\$210 million that were surplus to the Group's operating requirements. As management intend to distribute these surplus cash and bank balances to the Group's existing shareholders by paying a dividend of approximately HK\$209 million, we are instructed by Leighton Holdings Limited not to take into account these surplus cash and bank balances as well as the distribution of the above dividend in this valuation.

Conclusion

Based on the information contained in the attached report, and subject to the terms and limitations set out in Section 1 and the assumptions and factors set out in Section 7, it is our opinion that the value of a 20% interest in Leighton Asia as at 31 July 2000 is approximately HK\$146 million to HK\$157 million.

We set out our detailed report in the sections which follow this letter and we shall be pleased to discuss its contents with you.

Yours faithfully,
For and on behalf of
Deloitte & Touche Corporate Finance Limited

A handwritten signature in black ink, appearing to read 'Richard DW', with a long horizontal flourish extending to the right.

Richard Winter
Managing Director

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APPENDICES

1. Sources of information
2. Summary of projects on-hand
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ABBREVIATIONS

<u>Abbreviation</u>	<u>Name</u>
ASEAN	Association of South East Asian Nations (refers to: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam)
Leighton Asia	Leighton Asia Limited
DCF	Discounted cashflow
DTCF	Deloitte & Touche Corporate Finance Limited
EBIT	Earnings before interest and tax
EIU	The Economist Intelligence Unit Limited
Group	Leighton Asia Limited and its subsidiaries
HK\$	Hong Kong dollar
IMF	International Monetary Fund
INR	Indonesian Rupiah
Leighton	Leighton Holdings Limited
Leighton Asia	Leighton Asia Limited
MYR	Malaysian Ringgit
P/E	Price earnings ratio
Proposed Transaction	Acquisition of a 20% interest in Leighton Asia from Hochtief A. G. by Leighton
PHP	Philippine Peso
YE 1998	Year ended 30 June 1998
YE 1999	Year ended 30 June 1999
YE 2000	Year ended 30 June 2000
YE 2001	Year ending 30 June 2001
Exchange rates	MYR 1 = HK\$2.0443 THB 1 = HK\$0.2109 US\$1 = HK\$7.8

1 SCOPE AND BASES OF REVIEW

1.1 Terms of reference

Our report has been prepared solely for the use of Leighton Holdings Limited (“Leighton”). We understand that the report will also be disclosed to PriceWaterhouseCoopers (“PWC”), which is the independent expert to the proposed transaction in which Leighton plans to acquire a 20% interest in Leighton Asia from Hochtief A. G. (“the Proposed Transaction”) The report should not be otherwise referred to, in whole or in part, or quoted by excerpts or reference in any manner, or distributed in whole or in part or copied to any third party without our prior written consent. The scope of the work has been limited to our terms of reference dated 3 July 2000.

1.2 Places visited and sources of information

We have visited Leighton Asia Limited’s (“Leighton Asia”) office at 49th Floor, Hopewell Center, 183 Queen’s Road East, Wan Chai, Hong Kong. We have held discussions with and obtained information from the following personnel from Leighton Asia:

- Mr. John Faulkner, Managing Director;
- Mr. Tony Jacobs, Finance and Administration Director; and
- Ms. Monita Wong, Financial Controller.

Set out in Appendix 1 is the detailed list of the information we have referred to and relied on in the course of the preparation of the valuation.

1.3 Verification

In completing our work we have relied on the integrity of the information and data supplied to us by management. We have not independently verified the information or documentation provided to us unless expressly stated in the report. Accordingly we do not express an audit opinion on the information included in the report.

1.4 Management confirmation of facts

A draft of this report has been seen by Mr. John Faulkner and Mr. Tony Jacobs. They confirmed that the facts as stated are accurate in all material respects and that they are not aware of any material matters relevant to our terms of reference which have been excluded. They have also confirmed that, to the best of their knowledge and belief, the information provided to us by Leighton Asia and incorporated in our valuation is fair and accurate in all material respects.

1.5 Forecasts

Insofar as our work related to forecasts, we reviewed their compilation to enable us to report that they have been prepared on the basis of the underlying assumptions. However, those assumptions are the sole responsibility of the directors of Leighton Asia. We have commented on those assumptions but accept no responsibility for them, or the ultimate accuracy and realization of the forecasts. Furthermore, you should note that there will usually be differences between forecast and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

1.6 Disclaimer on post date events

This report is issued on the understanding that both you and Leighton Asia's management have drawn our attention to all matters of which you are aware concerning the proposed transaction which may have an impact on our report up to the date of our final report. We have no responsibility to update this report for events and circumstances occurring after the date of completion of our fieldwork which was completed on 31 July 2000 but will be pleased to discuss further instructions as may be required.

1.7 The Year 2000 Issue

Our review does not provide any assurances that Leighton Asia's computer systems or any other computer systems, such as those of Leighton Asia's suppliers, customers, related parties, or any third parties, are Year 2000 compliant. In addition, we have not performed any procedures to test whether Leighton Asia's computer systems or any other computer systems are Year 2000 compliant or whether the plans and activities of Leighton Asia are sufficient to address and correct system problems, or any other problems that may arise because of the Year 2000. You may wish to obtain expert advice in relation to this issue.

1.8 Matters excluded

There are other matters, such as:

- issues of law (including without prejudice to the foregoing, validity and effectiveness of contracts, licences, title deeds including those for property, investments and stock, encumbrances, compliance with relevant laws and regulations);
- property/stock valuations; and
- regulatory issues.

You should consider whether to obtain expert advice in relation to these areas.

2 BACKGROUND INFORMATION OF LEIGHTON ASIA

2.1 Overview

Leighton Asia and its subsidiaries (collectively referred as “the Group”) is one of Asia’s largest contracting groups. Leighton Asia was established in Hong Kong more than 25 years ago. Its major shareholder, Leighton Holdings Limited (“Leighton Holdings”), is listed on the Australian Stock Exchange and is one of the world’s largest contractors and project developers.

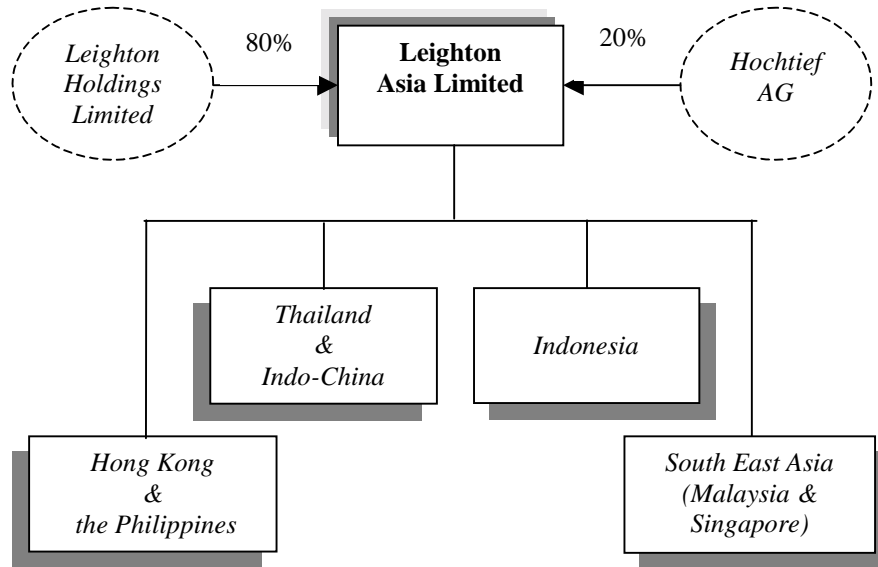
Hitherto, the business of Leighton Asia has been mainly focused in Hong Kong. In 1988, it established its operations in Thailand. Operations in other South East Asian countries such as Malaysia, Vietnam and Singapore were also established in the 1990s. In May 2000, Leighton Asia acquired the Indonesian operations of PT John Holland Constructions Indonesia and a 50% interest in the SRT Rail Project in Thailand for an aggregate consideration of US\$5.63 million. Leighton Asia also pursues opportunities in China, Laos and India on a project by project basis.

For over 25 years, Leighton Asia has undertaken projects covering all facets of civil engineering constructions. These include: site preparation, construction of buildings, roads and bridges, railways, airports, tunneling, etc. The Group also has extensive experience in the execution of complex multi-disciplined projects of all sizes involving mechanical, electrical, piping and instrumentation installations.

2.2 Four major business divisions

The Group has four major divisions, which are set up according to the geographic markets they serve. Set out below is the Group’s operational structure:

Exhibit 2.1
Group's operational structure



Source: Management

The business operations of each major division is summarized below.

2.2.1 Hong Kong & the Philippines

The business operation was established in Hong Kong in 1975 and has grown to become one of the strongest and largest civil engineering companies in Hong Kong. It has expanded to include commercial building, housing, marine works, and mechanical and foundation engineering for both the public and private sectors.

In previous years, the division operated both as an independent international construction company and in association with local construction contractors. The division also carried out 3 projects in Hainan Province in China. The Philippines operations commenced in the 1970s and has a strong focus in heavy civil engineering, contract mining, marine works and building.

The Group has obtained licenses to carry out all types of public works in Hong Kong. In the Philippines, the Group also has obtained valid construction licences in respect of the construction works it is undertaking.

The current outstanding contracted work on hand in the Hong Kong and the Philippines division amounts to approximately HK\$1.98 billion which is expected to generate gross profits of approximately HK\$127 million for the coming 3 years.

2.2.2 Thailand & Indo-China

The Thailand and Indo-China operations commenced in 1988. It provides a full range of civil engineering and building services ranging from infrastructure to building and foundation projects.

Through joint ventures with local companies, it has undertaken operations in Vietnam since 1992. Its joint venture companies have developed a strong reputation in building projects.

As mentioned in Section 2.1, in May 2000, the Group acquired a 50% interest in the SRT railway project for Thailand.

The current works on hand in this division amounts to approximately HK\$396 million, which is expected to generate gross profits of approximately HK\$54 million.

2.2.3 South East Asia (Malaysia, Singapore and other parts of Asia)

Established in 1982, the South East Asia division undertakes civil, building and marine engineering throughout the Malaysian peninsular and East Malaysia.

The current outstanding contracted works on hand in this division amounts to approximately HK\$2.4 billion), which is expected to generate gross profit of approximately HK\$202 million in the coming 2 years.

2.2.4 Indonesia

In 1997, the Group established a representative office in Jakarta to undertake civil infrastructure and marine engineering project. However, this representative office has already been closed down as the Group's operations in Indonesia are carried out by the Indonesia operations of PT John Holland Constructions Indonesia, which was acquired by the Group in May 2000. This acquisition has added two coal mining contracts in Indonesia to Leighton Asia's project portfolio. The current outstanding contracted works on hand in this division amounts to approximately HK\$973 million, which is expected to generate gross profit of approximately HK\$122 million.

2.3 Subcontractors

According to management, the Group has built up good working relationships and acquired detailed knowledge of their expertise and capability of a number of subcontractors around the region who offer specialized construction services.

2.4 Clients

The majority of Leighton Asia's clients in Hong Kong are either governments or quasi-government authorities, while most of its clients outside Hong Kong are large enterprises. Some of its major clients include:

Exhibit 2.2	
Value of work completed for major clients	
Clients	Value of work completed for the year ended 30 June, 2000 HK\$' mil
<i>Hong Kong:</i>	
The Hong Kong Housing Authority ("HKHA")	931
Mass Transit Railway Corporation ("MTRC")	254
Hong Kong Government – Water Supplies Department	173
Kowloon and Canton Railway Corporation ("KCRC")	28
<i>The Philippines:</i>	
Rockwell Land Corporation	328
<i>Malaysia:</i>	
Encorp Construction Sdn. Bhd.	61
Alstom	52
<i>Source: Management accounts</i>	

A detailed description of the current projects is set out in Appendix 2.

2.5 SWOT analysis

Set out below is a summary of the SWOT of the Group:

Exhibit 2.3

SWOT analysis

Strengths

- Technical and financial support of Leighton Holdings Ltd. and Hochtief AG.
- Good corporate governance through effective policies and practices that ensure its business affairs are managed and conducted to high standards
- Experienced management teams
- Possess construction license for all kinds of work
- Possess innovative construction techniques
- Close relationship with authorities within the public sector
- Conservative approach in selecting projects
- Reputation for the high quality of work
- Financially sound
- Lower geographical risk

Weaknesses

- Lack of close relationship with private property developers in Hong Kong

Opportunities

- Recovery of Asian economies leading to emerging opportunities to participate in a number of infrastructure projects across the region
- Being in a good position to obtain a number of housing projects from the Hong Kong Housing Authority

Threats

- Small number of opportunities existing in some South Asian countries
- Preferential treatment given by some countries to local contractors
- Currency exposure and fluctuations across the region
- Tough competition from local companies in Hong Kong

Source: Management and DTCF analysis

2.6 Business strategy

Management expects that Leighton Asia's business will grow as the Asian economy recovers. Through the following strategies, Leighton Asia is keen to uphold its position as a dedicated contractor in the Asia Pacific region:

Focus on core business

By adopting this strategy, the Group has been able to achieve a solid performance in an unpredictable and volatile environment. The Group managed to remain profitable during the Asian crisis in 1997 and 1998, whilst some other competitors, which also participated in property investment, suffered substantial losses.

Prudence in managing risk

By being selective about which projects to undertake, Leighton Asia has been able to avoid the difficulties experienced by many of its competitors throughout the region, especially during the financial turmoil.

Commitment to high quality, safety and the environment

The clients of Leighton Asia are becoming more and more concerned about quality, safety and environmental issues. As a result, having strictly adhered to the high standards as evidenced by obtaining the ISO 9000 certification of quality, Leighton Asia has developed a significant competitive advantage.

Regional coverage

Leighton Asia's strategy of gradual expansion into new geographic areas has been an important factor in the company surviving the Asian crisis relatively unscathed. Having historically focused on opportunities in Hong Kong, the Group has adopted a regional coverage strategy by establishing a number of joint ventures, representative offices and subsidiaries across the region. The diversification not only allows Leighton Asia to maintain a regional presence, it also helps the Group to diversify risk as well as to achieve a more even distribution of turnover.

3 PROFILE OF THE INDUSTRY

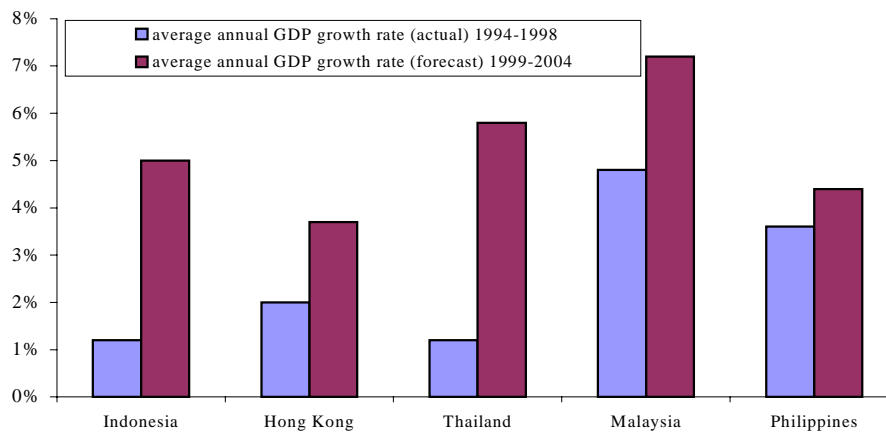
3.1 Overview of Asian economic development

According to a construction industry journal, BCI, the construction industry in Asia Pacific has been hard hit by the Asian economic turmoil in the late 1990s. With the foreign exchange risks, political instability, price deflation, rising interest rates, vigilant lending by financial institutions and most importantly, curbs on government spending due to International Monetary Fund's impositions as a condition for international loans, the construction industry in much of Asia has experienced a sharp slowdown.

Many Asian countries have an urgent need to continue upgrading their basic infrastructure, road network, port facilities, housing and city planning. According to the World Bank, East Asia would require US\$720 billion investment in infrastructure projects by 2005.

It has been widely perceived that construction will start to recover this year on the back of a general economic recovery. As illustrated in Exhibit 3.1, the Economic Intelligence Unit ("EIU") has predicted that the general economy across the region will recover during 1999 to 2004.

Exhibit 3.1
GDP growth analysis



Source: EIU – Country Forecast April 2000

Continuing economic growth will breathe life back into the region's construction industry. The future of construction will depend, not only on economic growth, but also on other issues such as the lending policies of financial institutions, private sector's faith in privatization of infrastructure projects and the improvement of deficient planning and land ownership laws in most Southeast Asian cities such as Jakarta.

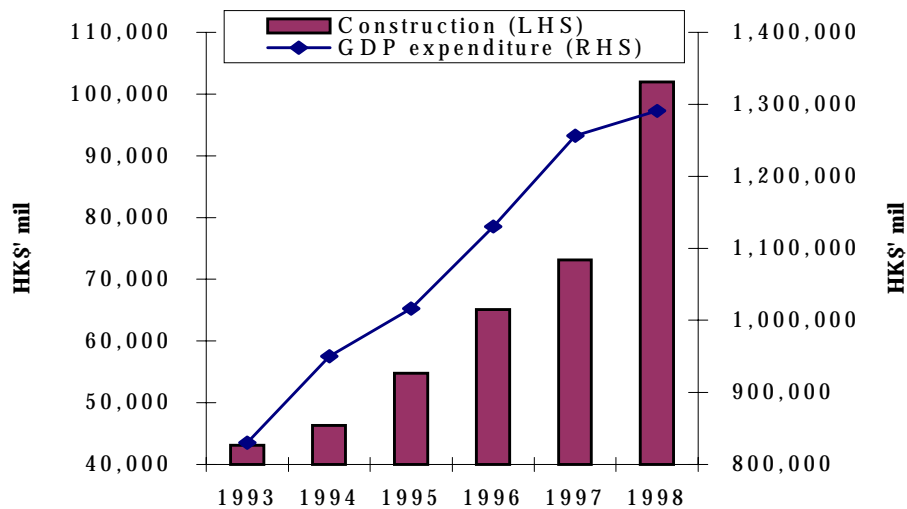
The forecast needs of Asia’s infrastructure include energy, telecommunications, transportation, agriculture and urban development as Southeast Asian governments open the way for the private sector to participate in these areas.

An overview of the construction industry in each major market of the Group is discussed in the following sections.

3.2 Hong Kong

Construction expenditure grew steadily during 1993 to 1998, which has been driven by the property market of Hong Kong. The growth in the construction sector and the gross domestic product (“GDP”) of Hong Kong are shown graphically below.

Exhibit 3.2
GDP comparative analysis – construction vs. general economy



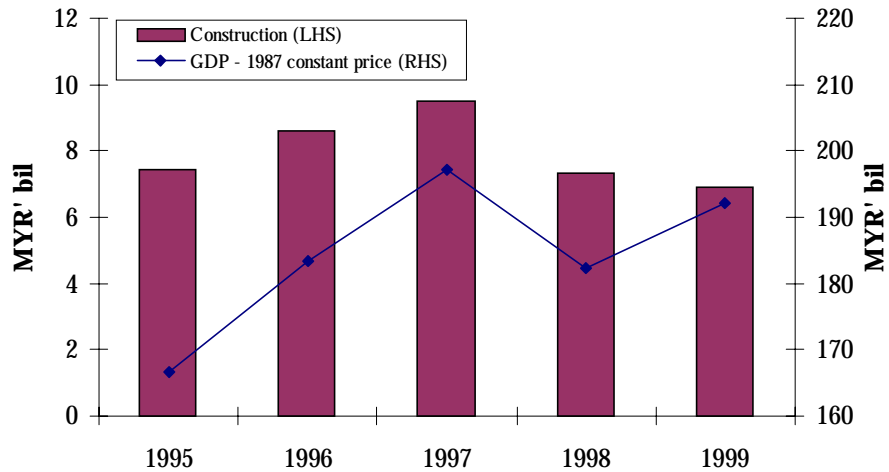
Source: EIU and Works Bureau of Hong Kong Special Administration Region

Even with the completion of the Airport Core Programme in 1997, there remains impetus for growth for the construction market in Hong Kong. Positive factors include the redevelopment of the old Kai Tak Airport and adjacent areas, infrastructure works for Disneyland on Lantau Island, and works arising from the Railway Development Strategy. Public and private sector housing construction will remain active. Residential completions for 1999 were at an all time high with 35,300 units released into the market.

3.3 Malaysia

As shown in the following graph, the growth of the construction industry of Malaysia was also consistent with overall GDP growth in the past few years.

Exhibit 3.3
GDP comparative analysis – construction vs. general economy



Source: EIU

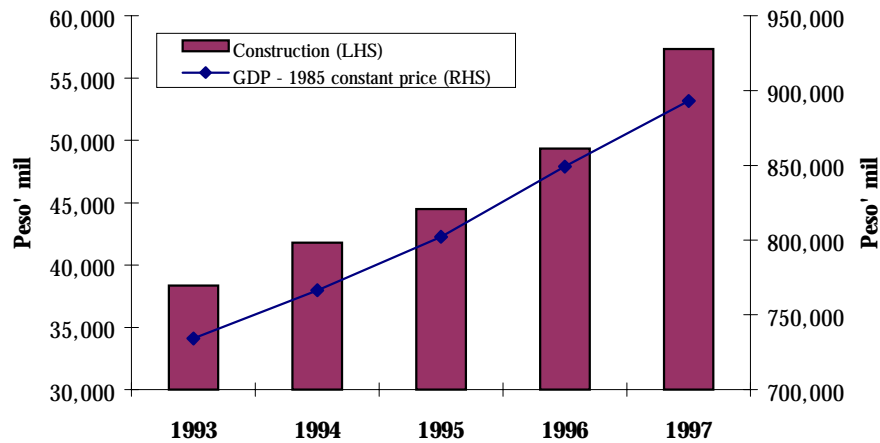
After the Asian Financial Crisis, the construction industry in Malaysia is now in the middle of a rapid turn-around. The recovery is however, not broad-based. It has mainly been driven by government projects and housing. Offices, retail and hotels continue to suffer from over-supply.

It is expected that the Malaysian government will continue to play an important role in the construction industry in 2000, but its development expenditure in general is expected to decline. Like a lot of other South East Asian countries, there is strong growth in low and medium cost housing and infrastructure. As Leighton Asia's major clients in the Malaysian market are in the private sector, the potential decline in government spending on construction is not expected to have a significant impact on the Group's business in this country.

3.4 Philippines

As shown in the following graph, the growth of the construction industry in the Philippines was consistent with the overall GDP growth in the past few years.

Exhibit 3.4
GDP comparative analysis – construction vs. general economy



Source: EIU

Whilst not shown in the above graph, there was a decline in the construction industry after the Asian Financial Crisis however, recovery is underway. The Philippines still faces a relatively stagnant year, with strong growth unlikely before 2001. EIU predicts that private consumption will increase by 6.4% in 2000 compared with only 2.6% in 1999. The outlook for 2000 for the Philippines is much better in the case of infrastructure. As the government has boosted the economy in the past two years, there is a demand for new roads, bridges, power stations, transmission lines, airports and ports. On the other hand, the Philippines government has posted a budgeted spending constraint slowing down the growth in public construction. As Leighton Asia's major clients in the Philippines market are in the private sector, the potential decline in the government spending on construction is not expected to have a significant impact on the Group's business in this country.

3.5 Thailand

According to EIU, prior to the economic crisis, the construction sector consumed nearly 50% of total fixed investments in Thailand. According to the International Monetary Fund, public investment in the industry grew at 25% a year in the mid-1990s, more than three times the 8% average annual growth rate in overall private investment. Being one of the industries hardest hit by the Asian currency crisis, recently there are positive signs indicating a revived construction sector. According to EIU, the construction sector, which shrank by more than 20% in the first half of 1999, fell only slightly in the fourth quarter. As such, it is believed that the Thai construction business has finally bottomed out and is reviving. There is increased government spending, fueled by international lending bodies, on roads, airports, hospitals, schools as well as other infrastructure and institutional projects. It is expected that high end residential and commercial building construction will continue to remain stagnant for at least another year. As the Group does not put emphasis on the Thai market, the stagnant condition in the Thai market is not expected to have a significant impact on the Group's business.

3.6 Indonesia

According to the EIU, Indonesia's construction sector was also one of the hardest hit sectors by the economic crisis. Construction contracted by 40.5% in 1998, making it the worst performing sector in the Indonesian economy. However, unlike its neighboring countries, government spending has remained stagnant. Coupled with its unstable political and economic problems, the overall situation remains extremely difficult for the construction industry.

4 HISTORICAL AND FORECAST PROFIT AND LOSS ACCOUNTS

4.1 Profit and loss accounts

The consolidated profit and loss accounts of the Group for the years ended 30 June 1998 to 2000 and the forecast profit and loss account for the year ending 30 June 2001 is summarized below:

Exhibit 4.1					
Historical and forecast profit and loss accounts (HK\$' million)					
	Ref.	YE1998	YE1999	YE 2000	Forecast YE 2001
Turnover	4.2	1,919	2,104	2,457	4,100
Operating profits before head office overheads	4.3	76	121	151	263
Head office overheads	4.4	(37)	(36)	(38)	(45)
Operating profits		39	85	113	218
Other adjustments	4.5	105	17	30	(45)
Profits before tax		144	102	143	173
<i>Operating margin</i>		<i>2.0%</i>	<i>4.0%</i>	<i>4.6%</i>	<i>5.3%</i>
<i>Profit before tax/turnover</i>		<i>7.5%</i>	<i>4.8%</i>	<i>5.8%</i>	<i>4.2%</i>

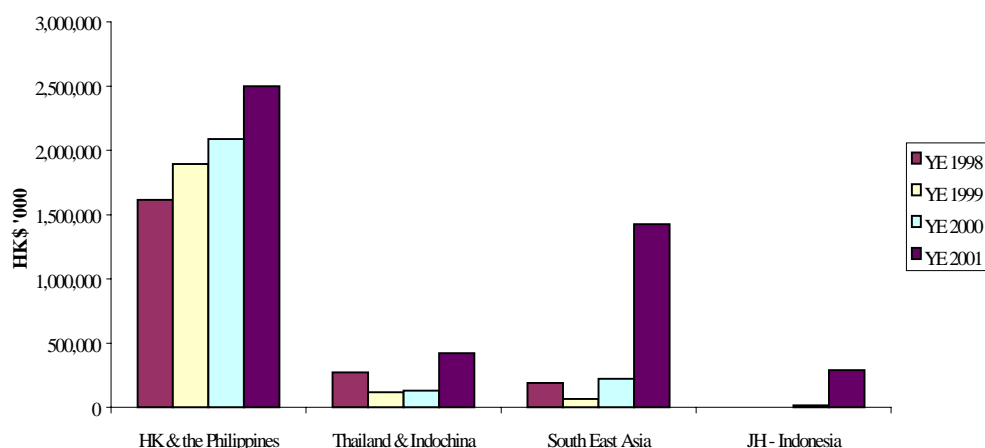
Source: Management accounts and management projections

The above figures are based on the management accounts of Leighton Asia provided by management, which are different from the financial accounts of the Group. Management advised us that the management accounts better reflect the earnings capabilities of the Group because certain transactions and adjustments have been incorporated in the financial accounts of the Group, to accommodate the Group being part of the financial and legal structures of Leighton Holdings Limited, and to take advantage of various tax concessions thus available from different countries.

4.2 Turnover

Turnover of each business division of the Group in the past 3 financial periods and the forecast result of YE2001 are analyzed graphically as follows:

Exhibit 4.2
Turnover analysis by countries of operations



Source: Management accounts and financial projections

As shown in the above chart, turnover from the Hong Kong and the Philippines division accounts for the largest portion of Leighton Asia's turnover.

The growth of turnover in the Hong Kong and the Philippines division has been driven by the Group's successful bidding of government projects in Hong Kong and its winning of large-sized projects in the Philippines. The performance of the Group in other regions in the past few years was not satisfactory mainly due to the impact of the Asian Financial Crisis. However, coupled with the expected economic recovery in the region, the Group has already obtained profitable construction contracts in Malaysia.

4.2.1 Hong Kong and the Philippines

Turnover of the Hong Kong and the Philippines division from YE 1998 to YE 2001 can be analyzed by projects as follows:

Exhibit 4.3

Analysis of turnover of the Hong Kong and the Philippines division by projects

Project name	YE 1998	YE 1999	YE 2000	Forecast YE 2001
	HK\$' mil	HK\$' mil	HK\$' mil	HK\$' mil
<i>Hong Kong</i>				
Tin Shui Wai Area 110 Phase 4	-	22	399	402
KCRC Trackwork	-	-	28	230
Tseung Kwan O MTR Station and Tunnel	-	127	254	204
Cyber Port Development Contract B	-	-	22	176
Tai Po Aqueducts	149	136	173	41
Tsz Oi Estate 4	1	495	532	19
Fanling Area 49A Phase 3	146	318	-	-
United Christian Hospital	138	175	-	-
Lei Yue Mun Museum	82	171	-	-
Aviation Fuel Supply Facilities	324	-	-	-
Lufthansa Catering Facility	242	-	-	-
Stalex Building	131	-	-	-
New Works	-	-	-	930
Sub-total	1,213	1,444	1,408	2,002
<i>Philippines</i>				
Rockwell Centre	-	63	328	110
Bataan Terminal Jetty Rehab	-	14	67	2
Sual Dredging Works	13	96	13	-
North Luzon Expressway	-	29	4	-
Sual Civil Works	86	42	-	-
Sual Jetty	150	-	-	-
Sibutad – Contract Mining	69	-	-	-
Hardie Jardine Fibre Cement Plant	67	-	-	-
New Works	-	-	-	373
Sub-total	385	244	412	485
Other jobs in HK and the Philippines	17	205	267	13
Total	1,615	1,893	2,087	2,500

Source: Management account and management projections

Hong Kong

A significant proportion of turnover in 1998 was related to works in Chek Lap Kok Airport, representing 20% of turnover in the Hong Kong and the Philippines division in YE1998. Though Chek Lap Kok Airport projects were completed in YE1998, there were a 17% and 10% increase in turnover in YE1999 and YE2000 due to contributions from the following two categories of projects:

- Tseung Kwan O MTR Station and Tunnel, which contributed 7% and 12% of turnover in the Hong Kong division in YE1999 and YE2000
- Public housing projects such as Tsz Oi Estate and Tin Shui Wai Area 110 Phase 4, which in total contributed 26% and 25% of turnover in the Hong Kong division in YE1999 and YE2000

Turnover of the Hong Kong division for YE2001 is projected to increase by 20%, or approximately HK\$594 million. The major new projects that are expected to make major contributions to turnover are KCRC Trackwork, Cyber Port Development Contract B.

Management also forecast that approximately HK\$930 million of turnover will be contributed by new works which have not been confirmed at this stage. This compares to forecast contribution by unconfirmed new works of approximately HK\$843 million in the Group's budget for YE2000 prepared last year.

Philippines

Turnover decreased by 37% in YE1999 as a major contract, Sual Jetty, was completed in YE1998. The significant increase in turnover in YE2000 was due to the contribution from Rockwell Center.

Though the contribution of Rockwell Center is expected to decrease significantly in YE2001 as a significant proportion of the work has been completed in YE2000, turnover is forecasted to remain optimistic. Management envisage that the new works will continue to be generated from the North Luzon Expressway project (classified under New Works in Exhibit 4.3), which will make significant contribution to turnover in YE2001. The forecast contribution from new works in YE 2001 is HK\$373 million, which compares to the forecast contribution of new work in YE 2000 budget of approximately HK\$207 million.

4.2.2 Thailand and Indochina

Exhibit 4.4

Analysis of turnover of the Thailand and Indochina division by projects

Project name	YE 1998	YE 1999	YE 2000	Forecast YE 2001
	HK\$' mil	HK\$' mil	HK\$' mil	HK\$' mil
New Works	-	-	-	210
SRT JHA NCC	-	-	36	193
GM Tower	-	-	7	7
Sihanoukville Jetty Ext	-	-	6	3
GE Plastics	-	-	58	2
MBJ	23	39	-	-
Effem Superstructure	-	38	-	-
Indochina Danang Resort	-	9	-	-
U Chu Liang Building	71	9	-	-
Vina Glass Factory	37	3	-	-
AVERY	37	-	-	-
Saigon Metropolitan	69	-	-	-
Lao Star Earth Station	26	-	-	-
Other jobs in Thailand and Indochina	10	21	24	7
Total	273	119	131	422

Source: Management account and management projections

Due to the Asian financial crisis in 1997, the construction industry in Thailand was severely hit and the Group's turnover in this division dropped significantly in YE1999. There was no significant recovery in the Group's turnover in YE2000.

Management forecast that turnover will increase significantly in YE 2001, mainly due to the following factors:

- There are positive signs showing that the Thai construction business has bottomed out and is reviving, government spending on roads, airports, hospitals, schools as well as other infrastructure and institutional projects are expected to increase. As a result, management expected that significant new works will be won by the Group. HK\$210 million in turnover is forecasted to be generated from new work, which compared to forecasted turnover from new work of approximately HK\$58 million in YE 2000 budget.
- SRT rail project, a project acquired from John Holland in May 2000, is expected to make significant contribution to turnover.

4.2.3 South East Asia

Exhibit 4.5

Analysis of turnover of the South East Asia division by projects

Project name	YE 1998	YE 1999	YE 2000	Forecast YE 2001
	HK\$' mil	HK\$' mil	HK\$' mil	HK\$' mil
Teachers Housing	-	-	61	529
Manjung Power Station Works	-	-	52	365
Lekir Bulk Terminal Jetty	-	-	77	257
Segama Water Treatment	-	12	22	-
Lahad Datu Flour Mill	69	19	-	-
Cabot CMB Port Dickson	1	19	-	-
KL Elevated Highway (construction and project management)	62	7	-	-
Penjom Gold Mine - KL	59	-	-	-
New Works	-	-	-	184
Other jobs in South East Asia	-	9	10	90
Total	191	66	222	1,425

Source: Management account and management projections

As a result of the Asian financial crisis and the completion of large-scale projects, there was a significant decrease in turnover for YE 1999.

Turnover started to pick up in YE 2000 as the Group successfully obtained new contracts in both civil engineering and building works e.g. Teachers Housing, Manjung Power Station and Lekir Bulk Terminal Jetty. These projects will continue to be a major contributor to turnover in YE 2001. Management also forecast that HK\$184 million will be contributed by new works not yet contracted as the country's return to positive economic growth should see further opportunities emerge, which compares to turnover from new works of approximately HK\$240 million in YE 2000 budget.

4.2.4 Indonesia

Exhibit 4.6

Analysis of turnover of Indonesia division by projects

Project name	YE 1998	YE 1999	YE 2000	Forecast YE 2001
	HK\$' mil	HK\$' mil	HK\$' mil	HK\$' mil
Sebuku mining-related works	-	-	12	113
Malinau Coal	-	-	3	64
New Works	-	-	-	107
Other jobs in Indonesia	-	-	2	6
Total	-	-	17	290

Source: Management account and management projections

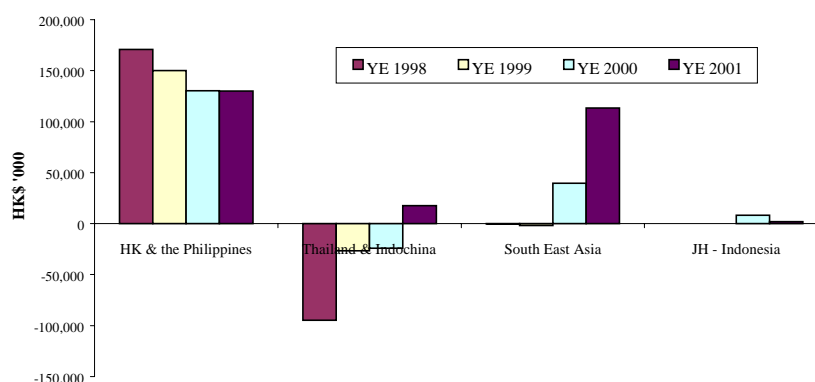
The Group has only generated small turnover in YE 2000. The significant increase in turnover in YE 2001 is mainly due to the following:

- As the acquisition of John Holland Indonesia by the Group was effective in May 2000, only one month's result was included in YE 2000. A full year's result for existing projects such as Sebuku mining-related works and Malinau Coal project will be included in YE 2001.
- As the economy of Indonesia has started to turnaround, management expect the strong foundation built in Indonesia by John Holland Indonesia will be an advantage for the Group to obtain new construction contracts in infrastructure and public works in YE 2001.

4.3 Operating profits before corporate overheads

The following chart shows the historical operating profit of the Group by business divisions from YE 1998 to YE 2000 and the forecast Group's operating profit for YE 2001.

Exhibit 4.7
Operating profit analysis by countries of operations



Source: Management accounts and financial projections

Though the operating margins of each division vary each year, the overall operating margin of the Group has been improving steadily during YE 1998 to YE 2000.

4.3.1 Hong Kong and the Philippines

The Group's operating margin in YE 1998 was high mainly due to the high operating margin for the Airport Core Projects in Hong Kong. Management represented that the Group was able to manage and control the costs of the projects.

In Hong Kong and the Philippines, operating profit started to drop in YE 1999 and YE 2000. This reduction was due to reduced opportunities in civil engineering projects available in the market meaning that the Group has had to concentrate on housing projects in these two years. According to management, housing projects generally have lower profit margins than those of civil engineering projects.

4.3.2 Thailand and Indochina

Due to the Asian Financial Crisis, the Group had written off a number of projects in Thailand and Indochina in YE 1998. This led to substantial losses incurred in the Thailand and Indochina division in that year. The Group had fewer projects on hand in YE 1999 and YE 2000 after the Asian Financial Crisis. The reduced level of work undertaken did not cover the relatively high fixed overhead costs (such as staff costs, repairs and maintenance cost, depreciation on plant and machinery) in these two years. As such, net operating losses were incurred.

The higher level of work from the SRT rail project and the expected new works in YE 2001 is expected to generate profits.

4.3.3 South East Asia

The Group's turnover in this division was not significant in YE 1998 and YE 1999, and it was close to a break-even position.

In YE 2000, the Group earned a structuring fee of approximately MYR 16 million for arranging financing for a construction project called Teachers' Housing for a client in Malaysia. In addition, the Group obtained a termination compensation of approximately MYR 6 million in relation to the Pandan Hospital project from the joint venture partner. These resulted in a significantly higher operating margin in that year.

Management forecast a higher level of operating profit in YE 2001, which is in line with the higher level of work brought about by a few large-scale projects such as Teachers Housing, Manjung Power Station and Lekir Bulk Terminal Jetty in Malaysia in this year.

4.3.4 Indonesia

Though management expect John Holland Indonesia will obtain new construction contracts in infrastructure and public works in YE 2001, the level of work of the Group in Indonesia is still relatively low as compared with other areas of operation of the Group. As such, low operating profit will be expected in YE 2001.

4.4 Head office expenses

Head office expenses consist of staff costs, depreciation, rental expenses and other administrative expenses such as water and electricity, printing, postage, etc. Head office expenses remained stable from YE 1998 to YE 2000. Management forecast higher head office expenses in YE 2001 as the Group plans to employ more staff to cope with the increasing volume of work in the Asian market.

4.5 Other adjustments

Exhibit 4.9

Breakdown of other adjustments

	YE 1998 HK\$' mil	YE 1999 HK\$' mil	YE 2000 HK\$' mil	Forecast YE 2001 HK\$' mil
Divisional adjustment	47	26	26	(40)
Exchange difference	40	(3)	1	-
Finance costs	13	2	(1)	1
Sundry income/(expense)	5	(8)	4	(6)
	<u>105</u>	<u>17</u>	<u>30</u>	<u>(45)</u>

Source: Management account and management projections

Management occasionally allocate corporate charges to projects, the purpose of which is to impose tighter budget to project managers and thus to achieve higher profitability of the projects. At the end of each financial year, management will assess the risk profile of each project. The corporate charges will normally be reversed by divisional adjustments, unless management consider the project costs will be higher than originally expected.

Divisional adjustment from YE 1998 to YE 2000 represents the reversal of the notional costs which have been charged to projects when arriving at the operating profit of each division. The negative divisional adjustment in YE 2001 is different in nature from with divisional adjustment in previous years. Based on precedences, management believe that the forecast operating turnover and profit made by the heads of divisions to be too optimistic, and a provision needs to be made to reduce the operating turnover and profits to a realistic level.

The exchange gain received by the Group in YE 1998 was mainly the result of the Asian financial crisis. In that year, the crisis led to a significant devaluation of currencies of Asian countries. As there was a large discrepancy between the booking rate and the market rate of that year, exchange gain arose for the Group as the operation costs of the Group in these countries exceeded the revenue generated from the projects in that year.

Finance costs represent the notional interest expense charged by Leighton Holdings which is borne by the head office of Leighton Asia.

5 THE GROUP'S FINANCIAL POSITION AT 30 JUNE 2000

The consolidated financial position of the Group at 30 June 2000 is set out below:

Exhibit 5.1

Consolidated balance sheet of the Group as at 30 June 2000

	As at 30 June 2000 HK\$'000
Property, plant and equipment	197,936
Investment in associated companies	7,844
Other non-current assets	82,671
Current assets	1,240,197
Current liabilities	(860,759)
Net current assets	379,438
Non-current liabilities	(216,459)
NET ASSETS	451,430

Source: Management accounts

Management advised us that all assets and liabilities have already been reflected in the consolidated balance sheet of the Group as at 30 June 2000.

Management have also advised us that there were cash and bank balances of approximately HK\$210 million that were surplus to the Group's operating requirements. As management intend to distribute these surplus cash and bank balances to the Group's existing shareholders by paying a dividend of approximately HK\$209 million, we are instructed by Leighton Holdings Limited not to take into account these surplus cash and bank balances as well as the distribution of the above dividend in this valuation.

Apart from the surplus cash and bank balances as mentioned above, the Group does not have any surplus assets which are not necessary for its operation.

6 VALUATION METHODOLOGY

6.1 Overview

In establishing the fair market value of the shares of Leighton Asia, we have considered the following valuation approaches:

- Price/earnings multiple basis (“P/E multiple basis”);
- Discounted cash flow basis (“DCF basis”); and
- Net assets basis

6.2 P/E multiple basis

Under the P/E multiple basis, the value of a company is represented by the annual profit after tax that it can generate over a number of years, plus any assets and less any liabilities that are surplus to the core business operations of the company. It is necessary to estimate the level of maintainable earnings (i.e. profit after tax but before dividends), taking into account unusual items and other possible fluctuations which may be cyclical and/or seasonal, and to select a multiple or a range of multiple(s) which reflect factors such as risks, growth potential, investment climate and various others in respect of the company as assessed by the current and potential investors of the company.

The value of the company (assuming no excessive assets or liabilities) can then be calculated as follows:

$$\text{Value} = \text{P/E multiple} \times \text{future maintainable earnings}$$

6.3 DCF basis

This method values a company by discounting the future net cash flows of the company using a discount rate representing the cost of funds. The present value of the cash flows represents the value of the company. Predicting future cash flows is generally a considerable exercise requiring assumptions on the future direction of the company, growth rate, operating and capital expenditure requirements and numerous other factors.

This method also requires the determination of a discount rate, which can be the subject of return an investor expects, given the nature and risks attached to the future cash flows.

6.4 Net assets basis

The asset based approach determines the value of the shares having regard to the market value of the assets and liabilities thereof. This approach includes the following methodologies:

- Orderly realisation method; and
- Liquidation method.

The orderly realisation method has regard to the amount that would be distributed to shareholders on the assumption that the company would be liquidated with the funds realised from the sale of its assets, after payment of all liabilities including realisation costs and taxes, being distributed to shareholders.

The liquidation method is based on the same principles except that in the orderly realisation method, the assets are realised in an orderly manner, whereas, the liquidation method assumes that the assets are sold within a shorter time frame.

6.5 Selection of Methodology

In view of the availability of information regarding publicly traded companies with similar operations to Leighton Asia, we consider that the most appropriate approach to adopt for the valuation of shares in Leighton Asia is the P/E multiple approach.

7 CONCLUSION

7.1 Valuation of Leighton Asia

The range of values for Leighton Asia under the P/E multiple basis is estimated as follows:

Exhibit 7.1			
Valuation of Leighton Asia			
	Ref	Low HK\$' million	High HK\$' million
Maintainable earnings (A)	7.2	112	112
P/E multiple (B)	7.3	<u>6.5</u>	<u>7.0</u>
(A) x (B)		<u>728</u>	<u>784</u>
Value of 20% interest		<u>146</u>	<u>157</u>

Source: DTCF

The valuation of a private company is normally based on certain valuation benchmarks (e.g. price earnings ratio) of listed companies. As there is no ready market for the shares of private companies, a discount for the lack of marketability is normally considered when these benchmarks are used in the valuation to account for this limitation.

Whilst there is research available on the range of discounts for lack of marketability, in practice, it is based on negotiation between buyers and sellers. As the last valuation done on the 20% interest in Leighton Asia in 1993 did not specifically incorporate such a discount to the valuation of the Group, we have been instructed not to include a discount for lack of marketability in our valuation for consistency purpose.

The value of a business arrived at on the above bases will have to include any excess assets (net of excess liabilities) which are surplus to the operational requirement as at valuation date. Based on the information provided to us, we understand that the Group had surplus cash and bank balances of approximately HK\$210 million. However, as management intend to distribute these surplus cash and bank balances to the Group's existing shareholders by paying a dividend of approximately HK\$209 million, we are instructed by Leighton Holdings Limited not to take into account these surplus cash and bank balances as well as the distribution of the above dividend in this valuation.

The major assumptions underlying our valuation are as follows:

- There will be no material fluctuations of exchange rates.
- There will be no material unexpected changes to the economies and the market condition in Hong Kong and countries within South East Asia.
- There will be no material changes to the legislation and regulatory environment in Hong Kong and countries within the South East Asia.
- Leighton Asia will be able to maintain or enhance its current market share.
- Leighton Asia is and will be in compliance with all the relevant laws and regulations
- Leighton Asia will be able to achieve its earnings forecast as prepared by the management and discussed in Section 4.1.
- Leighton Asia will continue to be a going concern and will be able to secure support from Leighton Holdings.
- Leighton Asia will continue to exercise control over and have access to 100% earnings of the operations of the subsidiaries in South Asian countries in which nominee shareholdings have been used for evidencing the Group's ownership.

7.2 Maintainable earnings

A company's future maintainable earnings is normally defined as:

“the annual profit after tax that a company can generate over a number of years, after adjusting for unusual items and other possible fluctuations which may be cyclical and/or seasonal.”

We consider the maintainable earnings of the Group to be approximately HK\$112 million having considered the following factors, :

- Historical earnings and growth of the Group
- Management's forecast earnings of the Group for YE 2001
- Outlook of the market
- Management's views on the Group's maintainable earnings in the foreseeable future

As mentioned in Section 4.1, management advised us that management accounts better reflect the earnings capabilities of the Group because certain transactions and adjustments have been incorporated in the financial accounts of the Group, to accommodate the Group being part of the financial and legal structures of Leighton Holdings Limited, and to take advantage of various tax concessions thus available from different countries. Therefore, for the purpose of assessing maintainable earnings, we assume that after the Proposed Transaction takes place, these transactions and adjustments will not be carried out and Leighton Asia's earning capabilities will be properly reflected in their financial accounts. Therefore, the information in the management accounts of the Group is used for assessing the maintainable earnings.

7.3 P/E multiple

In order to assess the appropriate P/E for Leighton Asia, we have assessed the P/E multiples of listed construction companies in Hong Kong, Malaysia, the Philippines and Asia. The P/E multiples of selected construction companies are summarized as follows:

Exhibit 7.3

Comparable company analysis

Company / Country	Market capitalization HK\$' mil	Turnover HK\$' mil	Net profit HK\$' mil	P/E	
				As at 31.12.99	As at 24.7.00
<i>Hong Kong:</i>					
Chun Wo Holdings	280	3,330	42	7.02	5.54
Hsin Chong Construction Group	330	2,902	44	4.61	7.42
Wai Kee Holdings Ltd	340	2,799	239	4.15	1.49
Paul Y-ITC Construction Hldg.	540	11,680	(798)	0.70	N/A
Hong Kong Construction Hldgs.	700	3,005	(1,213)	4.35	N/A
Mean:				4.17	4.82
<i>Malaysia:</i>					
IJM Corp. Berhad	2,563	1,127	241	9.01	10.47
WCT Engineering Berhad	462	841	71	5.30	7.30
YTL Corporation Berhad	14,440	3,890	862	20.98	17.13
Mean:				11.76	11.63

Company / Country	Market capitalization	Turnover	Net profit	P/E	
				As at 31.12.99	As at 24.7.00
	HK\$' mil	HK\$' mil	HK\$' mil		
<i>Philippines:</i>					
DMCI Holdings	4,600	33,587	155	12.00	N/A
<i>Indonesia:</i>					
PT Petrosea Tbk	205	742	52	6.24	3.98

Note: Malaysia Ringgit, Philippines Pesos and Indonesia Rupiah are translated into Hong Kong dollars at the closing rate of the financial year end date of each company in the table.

Source: Bloomberg

Set out in Appendix 3 is a brief description of the comparable companies that we have chosen.

As Leighton Asia is based in Hong Kong and generated over 60% of turnover from Hong Kong in YE 2000, we consider the P/E for companies listed in Hong Kong is a suitable base for its P/E.

In addition, we considered the following factors:

Growth prospect

- The majority of Asia's economies are expected to experience general improvement in the foreseeable future which should bring with it increased opportunities for Leighton Asia. Therefore, the availability of opportunities in Hong Kong and the Asian countries will have significant impact on the future growth of the Company's business.

Support from Leighton Holdings

- The Group, among its local competitors such as Hsin Chong and Chun Wo, is in a better position to obtain finance and the necessary financial guarantees from its parent company, Leighton Holdings Limited. Leighton Asia is in a much better position to bid for contracts and to take on new engagements.

Risk management

- Leighton Asia adopts a conservative approach in bidding for contracts after making careful assessment on the risk and the return of each project. As such, the risk of selecting unprofitable projects can be minimized.

Quality of work

- Leighton Asia's credentials in quality, safety and environmental aspects of the business have enabled it to possess a competitive edge over its competitors in the industry.

Reliance on public sector works

- The business of Leighton Asia has been largely driven by the public sector works in Hong Kong. Any changes to the relationship with the government and the chance of success in the bidding of public construction works in Hong Kong will have a significant impact on the future business of the Company.

Based on our study and taking account of the above factors, we consider that the appropriate P/E multiples for the valuation of Leighton Asia would be in the range from 6.5 to 7.0.

7.4 Recent acquisitions

In addition to our research on market P/E multiples, we have also looked into recent transactions involving construction companies in the Asia Pacific region. Some of the transactions relate to reverse takeover of listed shells and are not relevant to this valuation. The transactions that relate to strategic acquisitions are:

- Acquisition of a minority interest in Wai Kee Holdings Ltd. by New World Development Co. Ltd. in June 2000; and
- Acquisition of a 100% interest in PT John Holland Constructions Indonesia by Leighton Asia in May 2000.

After our assessment of the above transactions, we consider that they are not suitable to be used as a reference for valuation of Leighton Asia.